

## **ENCLOSURE 2**

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**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

**MANAGEMENT LETTER**

**SEPTEMBER 30, 2001**

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2001 M Street, N.W.  
Washington, DC 20036

To the Members of the Board of Education of the District of Columbia

We have audited the financial statements of the District of Columbia Public Schools (DCPS) as of and for the year ended September 30, 2001, and have issued our report thereon dated January 22, 2002. In planning and performing our audit of the financial statements of the DCPS, we considered internal control in order to determine our audit procedures for the purpose of expressing an opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

During our audit, we noted some internal control matters that are presented below for your consideration. These comments and recommendations, which have been discussed with appropriate members of management, are intended to result in improved internal control effectiveness.

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#### **I. Improper Recording of Capital Leases**

Since 1997, fixed assets acquired under a capital lease with one of DCPS' contractors were recorded as additions to the fixed assets only to the extent that lease payments were made. In addition, vehicles under new capital lease agreements in fiscal year 2001 were not properly recorded. Generally accepted accounting principles for governmental entities require that a governmental fund report at the inception of a capital lease both an other financing source and an expenditure equal to the net present value of the minimum lease payments, and that the related asset be recorded in the general fixed asset account group at its full acquisition cost at the inception of the lease.

DCPS should develop and implement procedures to identify and properly account for all fixed assets acquired under capital leases.

#### **II. Inadequate Internal Audit Function**

An internal audit function can be an effective resource to the Board of Education in establishing and maintaining internal controls. The Internal Audit Division is not adequately staffed to efficiently perform this function for DCPS. The division is staffed with only one Director whose responsibilities for FY 2001 included:

- Serving as a team member of the DCPS committee to resolve issues,
- Acting as the liaison between the Superintendent and the DC OIG relating to audit and investigative inquiries,
- Performing internal audits and investigations, and
- Working with USDA regarding the audit of federal requirements and procurement practices.



The Internal Audit Division should be staffed with adequate and competent audit staff to conduct audits that are broadly designed to accomplish operational and compliance audit objectives. The Division should be accountable to and develop its annual internal audit plan in connection with the appropriate members of the Board of Education. It should report internal control weaknesses and instances of noncompliance with the provisions of laws, regulations, grants and contracts to the Board of Education.

### **III. Appropriated Funds Used for Unauthorized Grant Expenditures**

The modification to the Memorandum of Understanding between DCPS and the Department of Health and Human Services for the Temporary Assistance for Needy Families (TANF) program was approved subsequent to September 30, 2001. However, DCPS paid \$1.6 million for goods and services received in 2001 for its TANF program without an approved agreement, using funds that were appropriated for fiscal year 2002.

DCPS should institute adequate controls to ensure that appropriated funds that are designated for a specific purpose are used properly. In addition, grant expenditures should be based on approved agreements.

### **IV. Central Investment Fund**

The DCPS has a established Central Investment Funds (CIF) to maintain fiscal integrity over donations and grants received from private sources. The DCPS does not follow the Accounting Guide and Policy Manual (Manual) that establish the policies and procedures that maintain the internal control structure designed to safeguard the assets of the funds. Specifically, DCPS has deposited monies, other than donations and grants from private sources, such as teacher certification fees as well as disbursing amounts without proper authorization according to the requirements of the CIF or the District of Columbia Procurement Laws and Regulations. The CIF individually accounts which are dormant for more than five years are not reviewed and consolidated as required by the Manual.

Further, the CIF is not accounted for in the DCPS general ledger and expenditures are netted from revenues for financial reporting purposes which is not in accordance with generally accounting principles as applied to expendable and non-expendable trust funds.

DCPS should implement a review process my management of the CIF on a monthly basis to insure compliance with the Manual. The CIF should be accounted for in the SOAR.

### **V. Change of Fiscal Year**

KPMG has discussed with DCPS Senior management the possibility of changing DCPS' fiscal year-end to June 30. The persuasive argument for the change in the fiscal year-end is that the current year-end of September 30 coincides with the start of the academic year, which increases the complexity of year-end accounting entries. In addition, the June 30 year-end date means that annual closedown and the DCPS' enrollment period occur at substantially the same time of year.

DCPS School Board members should consider the merits of a plan to change DCPS' year-end to June 30.

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This report is intended solely for the information and use of the Board of Education, management, and the District's Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Washington, D.C.  
January 22, 2002

**ENCLOSURE 3**



**DISTRICT OF COLUMBIA  
PUBLIC SCHOOLS**

***Office of the Superintendent***

825 North Capitol Street, N. E., 9th Floor  
Washington, D.C. 20002-4232  
202-442-5885, fax: 202-442-5026  
www.k12.dc.us

July 31, 2002

Mr. Charles Maddox  
Office of the Inspector General  
Government of the District of Columbia  
717 14<sup>th</sup> Street, N.W., 4<sup>th</sup> Floor  
Washington, D.C. 20005

**Re: Report on Compliance and on Internal Control Over Financial Reporting  
and Management Letter dated January 22, 2002**

In accordance with *Government Auditing Standards*, the District of Columbia Public Schools (DCPS) submits its management responses to the findings and weaknesses identified in the auditors Report on Compliance and Reportable Conditions in Internal Control Over Financial Reporting and Management Letter in connection to the audited financial statements for the fiscal year ended September 30, 2001.

The DCPS, including its Office of the Chief Financial Officer, stands committed to satisfactorily addressing each of the findings, weaknesses and conditions as reported.

Respectfully submitted,

Handwritten signature of Robert A. Morales in black ink.

Robert A. Morales  
Chief Financial Officer  
The District of Columbia Public Schools

Handwritten signature of Louis J. Erste in black ink.

Louis J. Erste  
Chief Operating Officer  
The District of Columbia Public Schools

Handwritten signature of Dr. Paul L. Vance in black ink.

Dr. Paul L. Vance  
Superintendent  
The District of Columbia Public Schools

## **MATERIAL NONCOMPLIANCE WITH LAWS AND REGULATIONS**

**September 30, 2001**

### **I. Expenditures in Excess of Budgetary Authorization**

The Anti-Deficiency Act states, in part, the following:

*An officer or employee of the United States Government or of the District of Columbia government may not (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation...*

The Home Rule Act states, in part, the following:

*No amount may be obligated or expended by any officer or employee of the District of Columbia government unless such amount has been approved by Act of Congress, and then only according to such Act.*

Section 101 of the DC Appropriations Act 2001, enacted November 22, 2000, states, in part, the following:

*Whenever in this Act, an amount is specified within an appropriation for particular purposes or objects of expenditure, such amount, unless otherwise specified, shall be considered as the maximum amount that may be expended for said purpose or object rather than an amount set apart exclusively therefore...*

The DCPS' financial statements state in note 1, "The Schools' actual expenditures may not legally exceed budgeted expenditures at the fund level. An unfavorable balance in the budgetary statement for total expenditures in excess of revenues is a violation of the Anti-Deficiency Act." We have confirmed this interpretation with the District's Office of Corporation Counsel.

By allowing expenditures in excess of revenues, DCPS may have violated the Anti-Deficiency and Home Rule Acts.

### **Management's Response – Expenditures in Excess of Budgetary Authorization**

*The Office of the Chief Financial Officer is responsible for oversight and direct supervision of the financial and budgetary functions of the District government. Since the spring of 2002, DCPS has closely monitored expenditures against budget and produced monthly detailed spending projections. Weekly monitoring reports are now being produced, and the Board of Education has authorized actions on June 26<sup>th</sup>, 2002 and July 17<sup>th</sup>, 2002 to avoid overspending.*

### **II. Noncompliance with Procurement Regulations**

There were numerous instances of expenditures being incurred by program offices that were not submitted to the budget and finance offices for timely processing. Approximately \$7 million in amounts owed to vendors for goods and services received during 2001 and prior years, but not previously identified for timely payment, were required to be accrued for financial reporting purposes. Approximately \$6.4 million of this amount relates to items that were not presented for ratification for



unauthorized purchases of goods and services in accordance with the Office of Contracts and Acquisitions (OCA) Procurement Policy and Procedure Directive No. OCPD 1800. We observed the following instances of noncompliance with established procurement policies during fiscal year 2001.

- Unauthorized personnel placed direct telephone orders with vendors, circumventing DCPS procurement policies;
- Authorized personnel exceeded contract authority; and
- Personnel applied purchases to closed purchase orders (Pos) and Pos with no funds available.

In addition, POs were processed directly by the CFO's office without following OCA Procurement Policies and Procedures.

### **Management's Response – Noncompliance with Procurement Regulations**

*In FY 2002, the Office of the Chief Financial Officer (OCFO), in conjunction with the Office of the Superintendent (OSUP), sent letters to all DCPS vendors, notifying them that no obligation will be honored without a valid purchase order. The OSUP is also sending a memorandum to all employees, advising them not to procure goods and services without a valid purchase order, and adding that sanctions would be imposed against those who fail to comply. Further, the requirements for ratification are being strictly enforced. The OCFO has provided the OSUP a list of all employees who have participated in unauthorized purchases.*

*However, it must be noted that certain employees are empowered to make orders by telephone if they are in the possession of a DCPS purchase card. Purchase cards may be used for individual procurements not exceeding a value of \$2,500. Policies and procedures are in place to promote compliance with proper use of purchase cards.*

*OCFO staff processes direct purchase orders in non-procurement situations. These include memo encumbrances for budgetary control purposes, processing direct purchase orders when a contract crosses fiscal years (since the contract amount is known, the remaining value of the contract will be obligated in the new fiscal year), and in cases where purchase orders with sufficient remaining balances were inadvertently closed.*

## **REPORTABLE CONDITIONS IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**September 30, 2001**

### **I. Accounting and Financial Reporting**

The District of Columbia Public Schools (DCPS) expends over \$700 million annually in operating and capital expenditures. These expenditures are reported as a component of the District's public education function in the District's general fund and capital projects fund, respectively. During fiscal year (FY) 2001, we observed the following areas of weakness within the DCPS accounting and financial reporting processes:

- **Monitoring of expenditures** – The detailed break out of original budget approved by Council was not loaded into the accounting system by DCPS personnel timely to allow for appropriate monitoring of expenditures by DCPS management. Further, budget modifications were not loaded into the system timely and there were numerous instances of expenditures being incurred by program offices that were not submitted to the budget and finance offices for timely processing. During the FY 2001 closing process, approximately \$7 million in amounts owed to vendors for goods and services received during 2001 and prior years, but not previously identified for timely payment, were required to be accrued for financial reporting purposes. Further, while performing our test work on procurement, we noted instances of non-compliance with DCPS procurement policies and procedures. The instances of non-compliance consisted of payments made in excess of purchase orders, direct vouchers were issued to pay vendors, invoices were not cancelled, or dates stamped for receipt of invoices and vendor invoices were not processed timely. Additionally, our test work noted expenditures relating to FY 2000 were partially charged to FY 2001 and DCPS staff could not provide invoices and supporting documentation for 19 disbursements totaling \$6,422,958.
- **Accounting for Medicaid expenditures** – DCPS incurs Medicaid reimbursable expenditures primarily related to services provided to special education students at private schools by third party contractors. However, because the private schools and other vendors do not always provide sufficient or timely encounter data to the DCPS Medicaid program office, many of these costs are considered ineligible for reimbursement by the United States Department of Health and Human Services. At September 30, 2001, a significant adjustment was required to reduce previously recorded Medicaid revenues and receivables that were no longer considered collectible. Further, the Medicaid program office appears to have no established process to follow up with vendors to obtain necessary encounter data to improve DCPS' ability to receive Medicaid reimbursement for special education student services provided. Finally, there is no process in place to provide for timely communication between the Medicaid program office and the DCPS office of financial operations.
- **Capital projects expenditures** – The DCPS capital projects expenditures are processed by purchase orders issued directly by the DCPS CFO's office rather than through the DCPS' procurement office. The procedures for issuing purchase orders are not documented and subsequent invoice processing against the purchase orders do not include the controls for approval that are required for other DCPS procurements. For FY 2001, the majority of the expenditures for capital improvements were provided through service agreements with the Army Corps of Engineers. These agreements define the scope of work to be performed and the source of funding. Various purchase orders are issued against the service agreements; however, there is no process to reconcile goods and services obtained

to the provisions of the service agreements. Further, the account coding of expenditures between capital and local funding is not adequately monitored.

- Payroll processing – DCPS failed to appropriately pay approximately 1,700 DCPS employees compensation for pay increases that were due, but not timely processed by the human resources and payroll departments, amounting to approximately \$2.4 million. We also observed numerous instances of employee payroll time sheets, which often provide DCPS' primary basis for obtaining federal reimbursement of eligible payroll costs, that could not be located. Finally, we observed that the payroll reports generated by the CAPPS system are not reconciled timely to the DCPS payroll posted to the general ledger.

Each of these items contributes to the risk that the financial reports relied upon by DCPS management may not be accurate. Accurate and timely management information is essential to DCPS management's ability to identify and respond to significant financial changes (e.g., revenues shortfalls and expenditures in excess of budget). To improve DCPS internal control over financial accounting and reporting, we recommend the following:

- Ensure that DCPS personnel load the annual operating and capital budgets into the accounting system timely and in sufficient detail to allow management to monitor expenditures versus budget more closely. Such information, along with an analysis of significant variances, should be provided to the DCPS School Board on a monthly basis.
- Require Medicaid service providers to provide relevant encounter data to permit DCPS to bill the Medicaid Assistance Administration (MAA) timely and in sufficient detail to ensure claims for reimbursements are not denied. We understand that requiring such information from the service providers may not be possible under existing contracts. Because the special education program, and the required payments to service providers, are under various court orders, it may be necessary to petition the Court to require service providers to provide such information in a timely manner.
- Monitor contractors hired to administer DCPS capital projects programs more closely. Further, each month DCPS management should review capital expenditures accounts to ensure that there are no significant budget variances and to identify and correct potential improper coding of expenditures between local and capital.
- Monitor the timing of pay increases more closely to ensure that all pay rate changes are processed timely. DCPS management should reemphasize to its timekeepers that adequate maintenance of payroll time sheets is critical to maximizing federal reimbursement under federal grant programs.

We further believe that DCPS has a unique opportunity to evaluate the adequacy of its existing financial accounting and reporting processes due to the anticipated implementation of the PeopleSoft system. We recommend that DCPS conduct a comprehensive review of its payroll, procurement, budget, capital

expenditures and Medicaid program accounting and financial reporting process in conjunction with this system implementation.

#### **Management's Response – Accounting and Financial Reporting**

*We agree with the recommendation to improve DCPS' internal control over financial accounting and reporting. Specifically, the Budget staff has been reorganized to ensure a timelier loading of*



*appropriations and budget modifications. Also, DCPS Management has notified all vendors and staff that no payments will be honored without a valid purchase order. The DCPS OCFO is promoting adherence to the timely processing of vendor payments.*

*The DCPS OCFO has appointed an Interim Medicaid Director to ensure timely and accurate requests for reimbursement from MAA, and follow-up on those requests that are denied. The Medicaid Office is part of the Office of the Chief Financial Officer and this communications breakdown should be at a minimum.*

*The DCPS OCFO has modified the procedure for processing capital purchase orders to adhere to standard operating procedures. Requisitions are now input by the program office and reviewed by Budget for accuracy prior to being transmitted to Procurement for vendor selection. After a contract is established, the requisition is converted to a purchase order by Procurement and the amount is encumbered by Budget Staff. Program staff reconciles services received to the provisions of the service agreements prior to signing off on invoices for payment.*

*The Human Resources Department will run the "Last Equivalent Increase Report" to determine pay increases ahead of time. Also, the DCPS Payroll Office is instituting an improved timesheet filing system. DCPS will perform a bi-weekly reconciliation of the CAPPS payroll interface to SOAR.*

## **II. Payroll Process Management**

Over 50% of the DCPS' annual operating expenditures are for employee compensation and benefits. The maintenance of employee personnel information such as personnel action forms and withholding authorizations is a critical component of internal control over the payroll process. Time sheets documentation (1) the hours worked by employees, (2) related grants or other projects charged, and (3) review and approval must also be maintained. We observed the following:

- Thirty of 60 employee timesheets could not be located or lacked evidence of appropriate management authorization, review and approval of hours worked. We were able to identify other sources of information, such as daily work logs, to substantiate the hours worked.
- Inadequate maintenance of personnel files as evidenced by (1) a number of missing files, (2) files that contained information for more than one employee, (3) incomplete files where appropriate authorization forms were missing, and (4) inadequate physical safeguards over files at storage locations.
- Terminated employees were not always removed from the payroll system timely.
- Changes to the CAPPS payroll database were not always made timely, and because of CAPPS system limitations, certain employees who were due annual step increases were not awarded those increases when due, requiring retroactive payroll adjustments. These pay adjustments amounted to approximately \$9.9 million during FY 2001, of which approximately \$2.4 million was payable at September 30, 2001.
- SOAR payroll reports were not reconciled to CAPPS.

To improve internal control over the payroll process, we recommend that DCPS:

- Train timekeepers on better methods of ensuring proper documentation is on file for all timesheets, annual leave, and sick leave forms.

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- SOAR payroll reports were not reconciled to CAPPS.

To improve internal control over the payroll process, we recommend that DCPS:

- Train timekeepers on better methods of ensuring proper documentation is on file for all timesheets, annual leave, and sick leave forms.

- Establish a methodology for employee file maintenance and related physical safeguards and assign responsibility for these matters to a single employee.
- Develop a standard checklist to ensure that all personnel files contain appropriate supporting documentation. Consider a periodic unannounced review of existing files to determine the completeness and accuracy of file data.
- Reinforce established procedures for employee terminations to ensure that they are processed timely.
- Reconcile SOAR payroll reports to CAPPS payroll reports each pay period.

### **Management's Response – Payroll Process Management**

*Human Resources will ensure that personnel files are properly maintained, terminated employees are inactivated in a timely manner and that a special report is run to identify anniversary dates for step increases. Also, the Payroll Office will initiate an improved timesheet filing system. The Payroll Office lacks storage space. A vendor has been requested to analyze space issues and provide recommendations to alleviate this matter.*

### **III. Monitoring of Expenditures Against Open Procurements**

DCPS finance personnel must approve each contract award to indicate that there is available budget for the goods and services being procured. Based upon this approval, the procurement staff finalizes the contract documents. It is the responsibility of the DCPS finance personnel to properly, and timely, encumber the funds. However, we observed that such encumbrances are not always recorded timely.

Encumbrance monitoring is further complicated by the fact that there is no linkage between the contract files and SOAR. SOAR, through ADPICS, is a purchase order number driven system. In order to process vendor invoices, ADPICS assigns a purchase order number; however, this number bears no relationship to the contract number. Because there is not a one-for-one relationship between the actual contract and the purchase order recognized by SOAR, and because encumbrance information is not readily available, it is possible for payments against purchase orders to exceed the contract value.

While the finance officer should continue to authorize the available funds, we recommend that policies be established to assign the contracting officer the responsibility for recording the encumbrance prior to finalizing the contract. This would ensure that the encumbered funds are in agreement with the final contract value and provide a stronger segregation of duties since the contracting officer has no role in approving or paying invoices. Further, we recommend DCPS develop a monitoring and reporting mechanism that will relate the contracts to the purchase orders and help ensure that payments in excess of contract values are not made.

### **Management's Response**

*A policy will be developed for better coordination between the Office of Contracts and Acquisitions and the CFO. This policy will require: (1) an appropriation clause that holds DCPS harmless, should the funds not be appropriated in the future as planned; (2) that contracts should be fully encumbered at the beginning of each fiscal year; and (3) that contracts are not finalized until Purchase Notification forms are authorized. Purchase Notification forms should contain the purchase order number, the contract number, and the amount.*



#### **IV. Payroll Allocation**

Certain categories of employees within DCPS are chargeable to DC appropriated funds as well as federal and private grants. Presently, the District's payroll system (CAPPS) does not allocate employees' payroll to more than one fund at the time each payroll is processed. In order to allocate payroll and related personnel costs to the related federal and private grants, the following procedures are currently being performed:

- The affected schools submit to DCPS payroll manually prepared summaries approved by the principals that indicate the names of the employees and the amounts to be charged to each federal and private grant.
- The manually prepared spreadsheets are reviewed for accuracy and completeness by the payroll department.
- Two accounting technicians within the Finance Department then enter total distribution from each of the manually prepared spreadsheets into a summary Excel spreadsheet containing all schools and/or programs.
- The summarized spreadsheet is then used as a basis for preparing a reclassifying journal entry to allocate the payroll to the respective federal and private grants.

The payroll allocations are not done timely. As a result, drawdowns of federal funds related to expenditures for personnel costs were not performed in a timely manner.

We recommend the following:

- The implementation of PeopleSoft should include the ability to allocate employee's payroll to multiple cost centers.
- DCPS should consider implementing a policy that requires the principals to electronically submit the detailed schedules, on computer-generated spreadsheets, to the payroll department each pay period. The spreadsheets should be forwarded to the Finance Department where they can be linked, electronically, to the summary spreadsheet thereby facilitating an easy calculation of the payroll allocation.

#### **Management's Response – Payroll Allocation**

*While the CAPPS allocation system is cumbersome, we are exploring a technique for charging part-time hours to grant programs. The part-time hours for administrative payments are currently submitted on separate timesheets and sorted by grant program. Payroll staff can input a unique FMS code for each grant. The SOAR D85 crosswalk screen points each FMS code to a corresponding index and PCA in SOAR. Under these procedures, payroll expenditures can be directly charged to the proper grant program, and no journal entry is required. Also, the implementation of the PeopleSoft personnel/payroll system will facilitate timely and accurate payroll allocation to multiple cost centers.*

## **V. Fixed Assets Management**

In 1999, Valuation Resource Management (VRM) appraised fixed assets held by DCPS. VRM performed a 100% fixed asset inventory count. At that time, all property (both idle property and property in use) was identified, valued and classified in the financial statements. During August 2001, VRM/Maximus performed another physical inventory count; however, this inventory was performed without using FY99 fixed assets valuation as its starting point. Therefore, the Office of Financial Information Systems (OFIS) decided to test-check the inventory count performed by VRM, and found several discrepancies in the count.

As a result, OFIS advised DCPS to reconcile the physical inventory count to their fixed assets report and notify OFIS of any discrepancies prior to the General Fixed Assets adjustment in ADPICS (the fixed assets module of the general ledger system).

DCPS did not reconcile the fixed assets balance in the general ledger at September 30, 2001 to the physical inventory count.

Further, DCPS follows the District's capitalization policy. Per the District's capitalization policy, current year purchases of items valued in excess of \$5,000 per single physical asset, with a useful life of three years or more, should be capitalized and added to the General Fixed Assets Account Group. We observed some items that were capitalized that were below the \$5,000 threshold for capitalization and an instance where an item should have been capitalized as a fixed asset but was not.

Fixed assets represent a significant portion of DCPS' assets. Therefore, a fixed asset management system is critical to the DCPS' operations. DCPS needs to improve its current fixed assets management procedures. DCPS should reconcile the fixed asset balance in the general ledger to the physical inventory count. In addition, DCPS should record its fixed assets in accordance with its capitalization policy.

### **Management's Response – Fixed Assets Management**

*In FY 2002, DCPS Accounting staff adjusted the Fixed Asset Balance in SOAR to tie to the physical inventory count. Going forward, the DCPS OCFO is developing a procedure for tagging and recording in the SOAR Fixed Asset System (FAS) each purchased or donated fixed asset, as it is received. A Fixed Asset Accounting Clerk will be hired to ensure that those items meeting the fixed asset threshold are properly capitalized in the FAS, and that building managers properly report disposals of fixed assets.*



## **FY2001 Management Letter Issues**

### **I. Improper Recording of Capital Leases**

Since 1997, fixed assets acquired under a capital lease with one of DCPS' contractors were recorded as additions to the fixed assets only to the extent that lease payments were made. In addition, vehicles under new capital lease agreements in FY2001 were not properly recorded. Generally accepted accounting principles for governmental entities require that a governmental fund report at the inception of a capital lease both an other financing source and an expenditure equal to the net present value of the minimum lease payments, and that the related asset be recorded in the general fixed asset account group at its full acquisition cost at the inception of the lease.

DCPS should develop and implement procedures to identify and properly account for all fixed assets acquired under capital leases.

#### **Management's Response**

*DCPS took corrective action as a result of this finding. DCPS will report, at lease inception, both an "other financing source" and "expenditure", as well as record the related asset(s) in the General Fixed Asset Account Group (GFAAG).*

### **II. Inadequate Internal Audit Function**

An internal audit function can be an effective resource to the Board of Education in establishing and maintaining internal controls. The Internal Audit Division is not adequately staffed to efficiently perform this function for DCPS. The division is staffed with only one Director whose responsibilities for FY 2001 included:

- Serving as a team member of the DCPS committee to resolve issues,
- Acting as the liaison between the Superintendent and the DC OIG relating to audit and investigative inquiries,
- Performing internal audit and investigations, and
- Working with USDA regarding the audit of federal requirements and procurement practices.

The Internal Audit Division should be staffed with adequate and competent audit staff to conduct audits that are broadly designed to accomplish operational and compliance audit objectives. The Division should be accountable to and develop its annual internal audit plan in connection with the appropriate members of the Board of Education. It should report

internal control weaknesses and instances of noncompliance with the provisions of laws, regulations, grants and contracts to the Board of Education.

### **Management's Response**

*The FY2002 DCPS transformation plan added staff to the Internal Audit Division which will upgrade the Internal Audit function from one person to a five-person office.*

### **III. Appropriate Funds Used for Unauthorized Grant Expenditures**

The modification of the Memorandum of Understanding between DCPS and the Department of Health and Human Services for the Temporary Assistance for Needy Families (TANF) program was approved subsequent to September 30, 2001. However, DCPS paid \$1.6 million for goods and services received in 2001 for its TANF program without an approved agreement, using funds that were appropriated for FY2002.

DCPS should institute adequate controls to ensure that appropriated funds that are designated for a specific purpose are used properly. In addition, grant expenditures should be based on approved agreements.

### **Management's Response**

*We agree that DCPS should institute controls to ensure that designated funds are used properly. The recently hired CFO will develop those controls. Grant funds will not be obligated prior to an executed agreement.*

### **IV. Central Investment Fund**

The DCPS has established a Central Investment Funds (CIF) to maintain fiscal integrity over donations and grants received from private sources. The DCPS does not follow the Accounting Guide and Policy Manual (Manual) that establish the policies and procedures that maintain the internal control structure designed to safeguard the assets of the funds. Specifically, DCPS has deposited monies, other than donations and grants from private sources, such as teacher certification fees as well as disbursing amounts without proper authorization according to the requirements of the CIF or the District of Columbia Procurement Laws and Regulations. The CIF individual accounts which are dormant for more than five years are not reviewed and consolidated as required by the Manual.

Further, the CIF is not accounted for in the DCPS general ledger and expenditures are netted from revenues for financial reporting purposes which is not in accordance with generally accepted accounting principles as applied to expendable and non-expendable trust funds.

DCPS should implement a review process by management of the CIF on a monthly basis to ensure compliance with the Manual. The CIF should be accounted for in the SOAR.

## **Management's Response**

*DCPS' CFO will review all current CIF accounts. Those that should be recorded in SOAR as Type "O" Revenue will be identified and submitted to the Board of Education for approval prior to conversion. Dormant accounts will be closed and balances will be transferred to the interest income sub-account, after Board approval is obtained. DCPS will now follow the Accounting Guide and Policy Manual and only allow donation and grants from private sources to be deposited into the CIF. Currently, staff is recording CIF revenue and expenditures in SOAR.*

## **V. Change of Fiscal Year**

KPMG has discussed with DCPS Senior management the possibility of changing DCPS' fiscal year-end to June 30. The persuasive argument for the change in fiscal year-end is that the current year-end of September coincides with the start of the academic year, which increases the complexity of year-end accounting entries. In addition, the June 30 year-end date means that annual closedown and the DCPS' enrollment period occur at substantially the same time of year.

DCPS School Board members should consider the merits of a plan to change DCPS' year-end to June 30.

## **Management's Response**

*Revising the DCPS fiscal year-end to June 30 was in the FY02 Appropriations Act but was cut during the final conference committee meeting in December 2001.*